

FDIC State Profile

Summer 2005

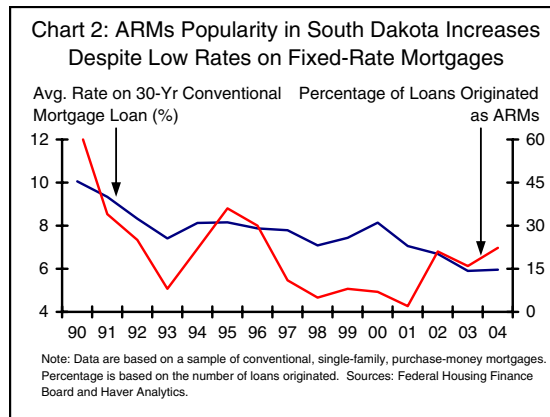
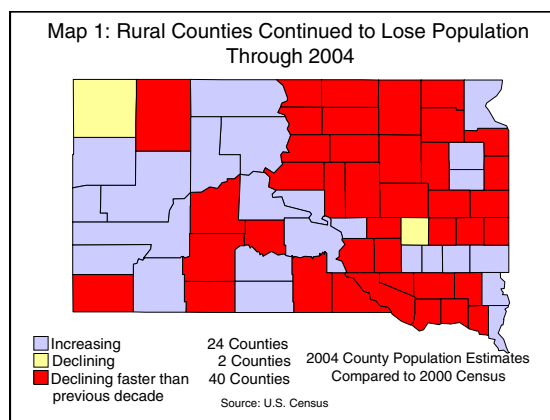
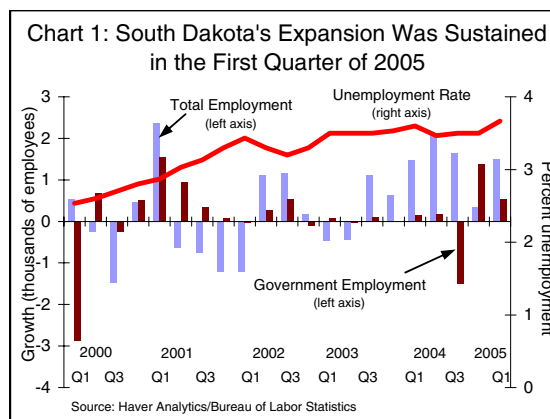
South Dakota

South Dakota's economic expansion continued in the first quarter of 2005 but faces closing of Ellsworth Air Force Base.

- South Dakota's economy added 1,500 jobs in the first quarter of 2005, registering seven consecutive quarters of employment growth. South Dakota's first quarter unemployment rate of 3.7 percent was the third lowest of the 50 states (See Chart 1).
- South Dakota's government sector, which accounts for more than 19 percent of the state's jobs, faces a significant risk because the U.S. Department of Defense recommended that, as part of the current round of military consolidation, Ellsworth Air Force Base (near **Rapid City**) be closed.
- Ellsworth employs more than 3,800 people and is the largest employer in Rapid City and the second largest employer in South Dakota. The base estimates that its economic contribution in 2004 was \$278 million, or 7.7 percent of the metropolitan area's gross product.

South Dakota's rural counties have continued to lose population since the 2000 Census.

- According to the 2004 Estimates of County Population released by the Census Bureau in April 2005, South Dakota's population increased by nearly 6,000 people compared with the previous year. Metropolitan counties showed most of the increase, with Sioux Falls and Rapid City accounting for three-quarters of the added population.
- However, South Dakota's rural counties continued their trend of depopulation as 42 of the state's 66 counties lost population from 2000 to 2004. Because of rural depopulation, South Dakota's population grew 2.1 percent (35th among all states) during that period.
- While recent rural population losses are a continuation of a decades-long trend, depopulation is accelerating over much of the state. Forty counties lost population at a faster rate from 2000 to 2004 than from 1990 to 2000 (See Map 1).



State Profile

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed-rate mortgages.

- Despite historically low mortgage rates and spread between fixed-rate and ARMs in 2003 and 2004, home purchasers in South Dakota have increasingly chosen ARMs (See Chart 2).
- Should interest rates increase, some ARM holders may be vulnerable to rising debt service requirements.
- South Dakota's insured institutions, however, typically have reported a low level of residential ARMs in their loan portfolios.

Although home prices appreciated significantly in many areas of the nation, South Dakota changes were more moderate.

- Home price appreciation in South Dakota averaged 7.5 percent during the year ending first quarter 2005, considerably less than the national rate of 12.5 percent (See Map 2). South Dakota ranked 31st of the 50 states in the percentage increase.
- Home prices in the state's largest market, **Sioux Falls**, grew 5.8 percent, while those in **Rapid City** grew 8.9 percent. The **Sioux City** market, which includes one county in South Dakota, experienced an increase that was less than the rate of inflation.
- South Dakota was one of 14 states in the nation where home prices grew slower than per capita income in 2004.

Agricultural credit quality continues to improve at South Dakota's farm banks.

- On a year-over-year basis, agricultural loan delinquencies declined to their lowest level in recent history as South Dakota farmers benefited from strong corn and soybean production and prices, strong cattle prices, and high government support payments (See Chart 3).
- Agricultural loan charge-offs have also been subdued over the past decade, with most farm banks reporting minimal net charge-offs during that period.
- USDA forecasts, which indicate strong net farm income in 2005, suggest that agricultural loan problems should remain low at Iowa's farm banks this year.

Bank profitability was lower in the first quarter but remains relatively strong.

- At small community institutions, those with assets less than \$250 million, annualized pretax return on assets (ROA) decreased slightly from one year ago but still remains the second highest first-quarter level in the past five years (See Table 1).

- Net interest margins (NIM) increased 42 basis points as higher short-term interest rates buoyed consumer loan yields, especially credit card loans. Because of the state's usury laws, many South Dakota institutions have higher levels of consumer loans than institutions in other Midwestern states.
- Offsetting the NIM increase, institutions experienced declines in noninterest income and increased noninterest expenses.

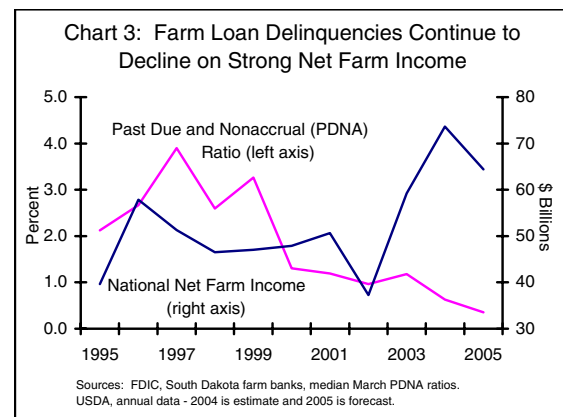
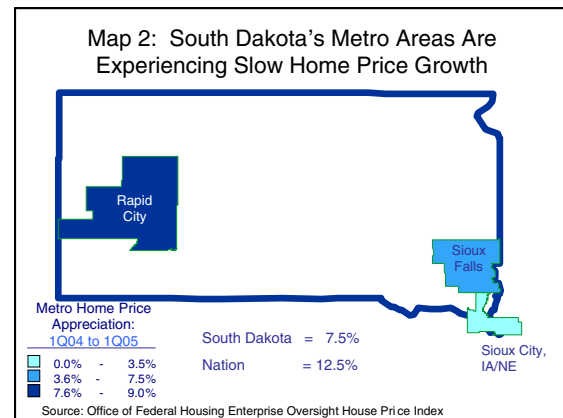


Table 1: Bank Profitability Declined From One Year Ago

Income statement contribution (as a percentage of average assets)			
	First Quarter (annualized)		Percentage Point Change
	2005	2004	
Net Interest Income	5.28	4.86	0.42
Noninterest Income	9.10	9.67	(0.57)
Noninterest Expense	11.42	10.84	0.58
Provision Expense	0.26	0.27	0.00
Security Gains & Losses	-0.03	0.05	(0.80)
Net Income (ROA) Before Taxes	2.67	3.48	(0.81)

Source: FDIC. South Dakota small community institutions (total assets less than \$250 million), excluding denovo and specialty institutions.

South Dakota at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	0.7%	0.5%	-1.0%	0.3%
Manufacturing (10%)	3.7%	1.0%	-2.0%	-10.2%	-2.8%
Other (non-manufacturing) Goods-Producing (5%)	3.9%	2.4%	2.5%	0.6%	-0.2%
Private Service-Producing (65%)	1.8%	0.7%	0.6%	-0.3%	0.0%
Government (19%)	0.7%	0.2%	1.0%	1.7%	3.4%
Unemployment Rate (% of labor force)	3.7	3.6	3.5	3.4	2.9

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	7.2%	7.5%	-1.4%	6.4%
Single-Family Home Permits	-12.0%	55.7%	-15.9%	35.6%	-14.0%
Multifamily Building Permits	-45.3%	109.2%	273.2%	-61.3%	-70.0%
Existing Home Sales	8.1%	-3.0%	17.0%	19.5%	-12.6%
Home Price Index	7.5%	5.2%	4.0%	4.4%	6.0%
Bankruptcy Filings per 1000 people (quarterly level)	0.95	1.01	0.89	0.83	0.81

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	91	93	97	97	97
Total Assets (in millions)	436,536	420,727	68,695	64,275	37,548
New Institutions (# < 3 years)	0	0	1	1	1
Subchapter S Institutions	37	34	31	31	30

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.41	2.09	2.37	2.30	2.38
ALLL/Total Loans (median %)	1.61	1.80	1.77	1.78	1.73
ALLL/Noncurrent Loans (median multiple)	3.04	1.89	2.55	2.19	2.13
Net Loan Losses / Total Loans (median %)	0.10	0.10	0.10	0.09	0.11

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	10.75	10.85	11.29	11.00	11.07
Return on Assets (median %)	1.33	1.40	1.32	1.30	1.34
Pretax Return on Assets (median %)	1.79	1.79	1.79	1.79	1.79
Net Interest Margin (median %)	4.88	4.85	4.72	4.71	4.69
Yield on Earning Assets (median %)	7.67	7.62	7.78	7.99	8.26
Cost of Funding Earning Assets (median %)	2.86	2.83	2.99	3.18	3.51
Provisions to Avg. Assets (median %)	0.10	0.10	0.14	0.12	0.12
Noninterest Income to Avg. Assets (median %)	0.70	0.73	0.70	0.67	0.75
Overhead to Avg. Assets (median %)	3.38	3.35	3.31	3.32	3.32

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	68.9	64.0	66.9	65.1	64.9
Noncore Funding to Assets (median %)	15.2	13.0	14.9	12.5	12.7
Long-term Assets to Assets (median %, call filers)	13.9	13.8	11.9	13.5	12.6
Brokered Deposits (number of institutions)	28	23	25	26	25
Brokered Deposits to Assets (median % for those above)	3.6	3.6	3.3	1.8	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	87.8	85.1	78.2	75.0	79.2
Commercial Real Estate	57.6	43.2	38.3	42.5	29.9
Construction & Development	5.9	0.7	1.8	1.8	0.8
Multifamily Residential Real Estate	0.1	0.0	0.0	0.0	0.0
Nonresidential Real Estate	42.7	37.1	32.2	33.7	22.2
Residential Real Estate	35.5	38.4	34.5	32.6	34.0
Consumer	43.3	47.0	49.4	52.4	55.3
Agriculture	220.6	229.5	245.3	232.5	213.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Sioux Falls, SD	33	43,738	< \$250 million	71 (78%)
Sioux City, IA-NE-SD	33	2,042	\$250 million to \$1 billion	15 (16.5%)
Rapid City, SD	13	1,457	\$1 billion to \$10 billion	3 (3.3%)
			> \$10 billion	2 (2.2%)